

Message Text

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41

ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 EURE-00 SSO-00 NSCE-00

INRE-00 USIE-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 ACDA-10

SAJ-01 AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 IGA-02 FRB-01 /110 W

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O R 061840Z MAY 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 7422

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USDEL MTN GENEVE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS ROME 07431

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: COLOMBO STATEMENT FOLLOWING IMPOSITION OF PRIOR DEPOSIT

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REF : ROME 7377

/SUMMARY/. FOLLOWING IS TEXT OF DECLARATION RELEASED BY
ITALIAN TREASURY MINISTER ON MAY 6. /END SUMMARY/.

1. /BEGIN QUOTE/. THE MEASURES ADOPTED YESTERDAY (NIGHT MAY
5) REFLECT THE UNAVOIDABLE OBLIGATION TO DEFEND THE
VALUE OF THE LIRA. ITS DEPRECIATION IN EXCHANGE MARKETS HAD
REACHED LEVELS TOTALLY UNJUSTIFIABLE FROM THE ECONOMIC POINT
OF VIEW UNDER SPECULATIVE PRESSURE CAUSED BY CONCERNS OF A NON-
ECONOMIC NATURE. IT IS SUFFICIENT TO SAY THAT THE FALL OF
THE LIRA AGAINST THE DOLLAR HAS BEEN FAR GREATER THAN ONE COULD
EXPECT BY EVALUATING RELATIVE INFLATION IN ITALY AND IN THE
UNITED STATES.

2. THE STRONG TRADE DEFICIT IN THE FIRST THREE MONTHS WAS IN
PART EXPECTED, BOTH BECAUSE OF THE REBUILDING OF INVENTORIES
TO MORE ADEQUATE LEVELS AND BECAUSE OF THE EXPECTED INITIALLY
NEGATIVE EFFECTS OF THE DEPRECIATION.

3. OUR EXPERTS AND OUR PARTNERS AGREE IN FORESEEING AN
IMPROVEMENT IN COMING MONTHS, ABOVE ALL BECAUSE OF THE
ECONOMIC RECOVERY UNDERWAY IN GERMANY AND THE UNITED STATES.
THE CONTINUED AND STRONG DECLINE IN THE EXCHANGE RATE WAS
HAVING DELETERIOUS EFFECTS ON THE COST OF LIVING, STARTING A
VICIOUS CIRCLE OF THE SOUTH AMERICAN VARIETY BETWEEN
DEPRECIATION AND INFLATION. IT WAS INDISPENSABLE TO BREAK
THAT CIRCLE AND TO AVOID A HIGH COST IN TERMS OF
FOREIGN RESERVES.

4. THE MEASURES TAKEN IN RECENT WEEKS, ALTHOUGH CERTAINLY
IMPORTANT, DID NOT HAVE THE HOPED-FOR EFFECTS IN OVERCOMING
THE TECHNICAL EFFECTS OF PSYCHOLOGICAL PRESSURES AND POLITICAL
CONCERNS. THEY, THEREFORE, WERE NOT SUFFICIENT TO WEAKEN
SPECULATION. OTHER MEASURES BECAME URGENTLY NECESSARY TO AF-
FECT DIRECTLY DEMAND FOR FOREIGN EXCHANGE FOR ALL PURPOSES.
IT IS EVIDENT THAT SUCH MEASURES ARE STRONGLY DEPENDENT UPON
THE REACTION OF THE INTERNATIONAL COMMUNITY, JUSTLY
CONCERNED ABOUT PREVENTING INDIVIDUAL COUNTRIES FROM
RESOLVING THEIR PROBLEMS AT THE EXPENSE OF THEIR OWN TRADING
PARTNERS. IN FACT, WHEN THE EC ON MARCH 15 GRANTED US
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A \$1 BILLION LOAN, THE LOAN WAS CONDITIONED UPON OUR COMMITMENT
NOT TO INTRODUCE RESTRICTIVE TRADE MEASURES. THE
GRAVITY OF THE EXCHANGE CRISIS, WHICH DAMAGES NOT ONLY US BUT
ALSO OTHER COUNTRIES, AND OUR EFFORTS OF PERSUASION HAVE INDUCED
OUR EC PARTNERS TO REVIEW THEIR JUDGMENT AND TO PERMIT US TO
INTRODUCE, BEGINNING AS OF TODAY, A NON-INTEREST BEARING,
NINETY-DAY DEPOSIT EQUAL TO 50 PERCENT OF ALL PURCHASES OF
FOREIGN CURRENCY AND ALL CREDITS TO FOREIGN LIRA (I.E.,

CONVERTIBLE) ACCOUNTS. THE COMMISSION OF THE EC, IN FACT, DECIDED YESTERDAY, IN ACCORDANCE WITH ARTICLE 108, PARAGRAPH 3 OF THE TREATY OF ROME, THAT OUR SITUATION IS SUCH AS TO REQUIRE THE IMMEDIATE ADOPTION OF SAFEGUARD MEASURES FOR OUR CURRENCY. THE AUTHORIZATION TO APPLY THAT DECISION IS VALID UNTIL AUGUST 5.

5. THE NON-INTEREST BEARING DEPOSITS SHALL BE MADE WITH THE BANK OF ITALY AND, WITHIN THE THREE MONTHS OF ITS APPLICATION TO IMPORTS, WILL ABSORB ALMOST 4,000 BILLION LIRE FROM THE DOMESTIC MONEY MARKET. IF THIS REDUCTION SHOULD TURN OUT TO BE INCONSISTENT WITH OUR OBJECTIVES, AN APPROPRIATE APPLICATION OF AVAILABLE MONETARY INSTRUMENTS COULD CORRECT ANY EXCESSES. IN THE NEXT FEW DAYS WE INTEND TO SUPPORT THIS MEASURE WITH OTHERS OF MINOR IMPORTANCE AIMED AT STOPPING SPECULATION AND AT RE-ESTABLISHING ORDERLY CONDITIONS IN THE EXCHANGE MARKET.

6. IN PAST WEEKS THE DEFENSE OF THE LIRA HAS NOT BEEN WITHOUT COST. ALTHOUGH REDUCED BY DEFENSIVE INTERVENTION, OUR RESERVES ARE SUFFICIENT TO ASSURE ORDERLY MARKET CONDITIONS AND TO ELIMINATE ERRATIC MOVEMENTS. WE ARE ALSO IN A POSITION TO BE ABLE TO DRAW UPON SIGNIFICANT, NEW FINANCIAL SUPPORT FROM OUR EUROPEAN PARTNERS WHENEVER WE HAVE THE NEED.

7. IN THIS DIFFICULT PHASE OF ITALY'S POLITICAL AND ECONOMIC LIFE, WE SHALL CONTINUE TO TAKE EVERY STEP TO SUPPORT THE VALUE OF OUR CURRENCY, WHILE AWARE THAT OUR EFFORTS FACE NUMEROUS DIFFICULTIES, EMOTIONAL PRESSURES AND IRRATIONAL STATES OF MIND. OUR WORK WILL BE MADE LESS DIFFICULT IF IN CARRYING OUT OUR RESPONSIBILITIES WE ARE SUPPORTED BY A MORE OBJECTIVE AND LESS DISTORTED VIEW OF OUR ECONOMIC SITUATION.
END QUOTE.VOLPE
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